



## Loan & Guaranty Program



**THE NORTH AMERICAN DEVELOPMENT BANK (NADB)** *was established by the governments of the United States and Mexico in a joint effort to provide a cleaner and healthier environment along the two countries' shared border. The primary function of the NADB is to facilitate financing for the development, execution and operation of environmental infrastructure projects in the U.S.-Mexico border region.*

## **OBJECTIVE**

The NADB loan program provides direct financing for infrastructure projects with a demonstrable and reasonable assurance of repayment when private sector financing is not available on reasonable terms and conditions on a timely basis. In other words, NADB loans are intended to fill financing gaps not covered by other funding sources.

The NADB guaranty program is designed to encourage the participation of private and public sector lenders in financing infrastructure projects by providing partial repayment protection against commercial risks for loans.

## **ELIGIBILITY**

Under its charter, NADB is authorized to make or guarantee loans to both public and private sector borrowers, operating within the United States and Mexico. Any project, regardless of community size or project cost, is eligible for financing and other forms of assistance from NADB, if it meets all three of the following eligibility criteria:

- ▶ The project must be located within 100 kilometers of the international border between the United States and Mexico.
- ▶ It must be certified by the Border Environment Cooperation Commission (BECC).
- ▶ It must be an environmental infrastructure project. Under the charter, preference is given to projects involving:
  - potable water,
  - water pollution
  - wastewater treatment,
  - municipal solid waste, or
  - related areas.

In November 2000, the NADB Board of Directors approved a resolution authorizing the bank to finance other types of projects within its current charter, while maintaining water, wastewater, and municipal solid waste as a priority. Projects that may qualify as environmental infrastructure under the charter include, but are not limited to, air quality improvement, public transportation, clean and efficient energy, and municipal planning, development and water management. In addition, the Board defined “related matters” to include: industrial and hazardous waste projects, water conservation projects, water and wastewater hookups for housing, and recycling and waste reduction projects.

Through its Loan and Guaranty Program, NADB is prepared to finance a portion of the capital costs of a project. Eligible capital costs may include the acquisition of land and buildings; site preparation and development; system design, construction, rehabilitation, and improvements; and the procurement of necessary machinery and equipment.

## **GENERAL EVALUATION CRITERIA**

NADB carefully reviews each project proposal to ensure that the project is technically, environmentally, financially and economically sound; that the project sponsor has the institutional, managerial and structural capability to carry out the project; and that the project meets the standards of the financial community in terms of viability, security, and legal structure. In evaluating a loan application, NADB is primarily concerned with the following factors:

### **Technical criteria:**

- ▶ The project is part of a long-term master plan that promotes the most efficient use of all resources.
- ▶ The proposed technology is appropriate and effective.
- ▶ The project contains a comprehensive operations and maintenance plan.

### **Economic criteria:**

- ▶ The service area can sustain a sufficient level of user fees or other revenue or income streams to repay the debt.

### **Financial criteria:**

- ▶ There is a demonstrable and reasonable assurance of repayment at the time of funding.
- ▶ The project is self-sustaining through user fees or other revenue or income streams in order to repay all debts, cover operations and maintenance costs, and create reserves.

### **Legal/regulatory criteria:**

- ▶ The project meets all the applicable legal and regulatory requirements of its locality.
- ▶ The proposed procurement procedures are fair, reasonable, competitive and transparent.

### **Sponsor criteria:**

- ▶ Project sponsors, borrowers and guarantors must demonstrate their technical, managerial and financial capabilities for carrying out their respective obligations.
- ▶ Project sponsors, borrowers or guarantors must have the legal authority to set and increase user fees and rates.

## **TYPES OF FINANCING AVAILABLE**

NADB works closely with project sponsors to structure appropriate and affordable financing packages to meet the specific needs of each community. NADB can provide financial support in a number of ways, including:

- ▶ Direct loans
- ▶ Interim financing
- ▶ Participation in municipal bond issues
- ▶ Partial loan guaranties

## **GENERAL FINANCING TERMS**

All NADB project financing operations must be structured with a view toward preserving the bank's resources and credit rating for the benefit of current and future border residents. Funding from other sources in the form of grants, equity or cofinancing is generally required as NADB cannot accept exposure of more than 50% of the total capital cost of a project.

Loan maturities generally will range up to 25 years, depending on individual project requirements, but cannot exceed the useful life of the project. Grace periods for principal repayment are negotiable and may cover the anticipated project construction and start-up phase. The borrower must maintain the debt coverage ratio set by NADB at the time of funding, usually between 1.25 and 2.0.

Loans must be paid back in the currency in which they are originally funded. An exchange rate hedging mechanism is available to protect against currency risks, where necessary. Exchange risk coverage will be available for both the NADB component of a project's financing package, and any other public or private credit component of a NADB-sponsored project.

Project cash flows and assets may be used as loan collateral. The value of the collateral must be greater than the unpaid balance of the loan. Third-party guaranties are not required, unless needed to demonstrate a reasonable assurance of repayment or to support collateral requirements.

## INTEREST RATES AND OTHER FEES

The terms and conditions of NADB financing will generally be market-related and appropriate to the project financed. Interest rates may be fixed or variable and are set at the time of closing. In making or guaranteeing a loan, NADB must be reimbursed for its expenses, including legal fees and loan supervision costs, as well as receive suitable compensation for its risk.

### For loans

- ▶ **Application fee:** \$250-\$2,500, depending on the amount of the loan requested, payable upon submission of the detailed project proposal.
- ▶ **Interest rates** (for loans in U.S. dollars): set at 100-150 basis points above the yield on U.S. Treasury securities of comparable maturity.
- ▶ **Exposure element:** based on the applicant's creditworthiness and the project credit risk, typical exposure fees range from 0-75 basis points for a government or investment grade borrower.
- ▶ **Commitment fee:** 3/4 of one percent on undisbursed loan balances.

### For guaranties

- ▶ **Application fee:** \$250-\$2,500, depending on the amount of the guaranty requested, payable upon submission of the detailed project proposal.
- ▶ **Guaranty fee:** minimum of 50 basis points per annum on the full amount of the guaranty.
- ▶ **Exposure element:** based on the applicant's creditworthiness and the project credit risk, typical exposure fees range from 0-75 basis points for a government or investment grade borrower.
- ▶ **Commitment fee:** 1/8 of one percent on the undisbursed balance of the guaranty, charged to the lender.

### Low Interest Rate Lending Facility (LIRLF)

- ▶ This mechanism gives the Bank the flexibility to offer loans at lower-than-market rates.
- ▶ Loans under the LIRLF will only be available for projects in the Bank's core environmental sectors: water, wastewater and municipal solid waste.
- ▶ Availability of funds under this mechanism is limited.
- ▶ Project sponsors will have to pay the same loan fees indicated above, as well as reimburse the NADB for its expenses; however, there will be no commitment fee.

## **BASIC FINANCING PROCESS**

### **Application Procedures**

- Step 1** NADB, in coordination with the BECC precertification process, performs a preliminary review to determine project eligibility and to ensure all pertinent information is provided.
- Step 2** Project sponsor obtains certification from BECC.
- Step 3** Project sponsor formally submits a loan or guaranty application to NADB.
- Step 4** Applicant and NADB sign an acceptance agreement regarding the comprehensive analysis of the project proposal and payment of the NADB's expenses.

### **NADB Review and Approval Procedures**

- Step 1** NADB performs a comprehensive analysis of the project, including financial feasibility, project risks, and available sources of financing.
- Step 2** NADB staff structures an appropriate financing package for the project based on the community's repayment capacity and the availability of other sources of financing.
- Step 3** NADB management presents the financing proposal to its Board of Directors for approval.
- Step 4** NADB issues a Financing Commitment approved by its Board.
- Step 5** Applicant and NADB finalize the financing terms and conditions, including procurement procedures.
- Step 6** Applicant and NADB sign loan or guaranty agreement.
- Step 7** NADB disburses funds according to the approved schedule and established policies and procedures.
- Step 8** NADB monitors the project through financial and technical audits and reports.

## **NADB ASSISTANCE FOR COMMUNITIES AND PROJECT SPONSORS**

In addition to financing, NADB may provide guidance to communities and potential borrowers that will assist them in the financial design and structure of environmental infrastructure projects to be certified by BECC. Such assistance may include:

- ▶ the development of financial criteria, forms and procedures to be used in the economic, credit, and financial analysis of the project;
- ▶ the coordination of preliminary economic and financial reviews of the project and the design of alternative financial structures for the project;
- ▶ reviewing, advising or assisting in conducting procurements for contracts with private firms; and
- ▶ developing minimum standards of construction quality, performance guaranties, and vendor creditworthiness.

This assistance may be offered before or after BECC certification of a project. Additional assistance for studies aimed at enhancing the financial performance and managerial efficiency of the utility may also be provided through the Bank's institutional strengthening programs. In this way, NADB can help expedite the development process, increase the likelihood that the project proposal will comply with all NADB loan evaluation criteria, and assure the implementation of the project as soon as practicable.



## **ADDITIONAL INFORMATION**

For more information about this lending program contact:

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San Antonio, TX 78205  
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For additional information about the BECC certification process, contact:

**Border Environment Cooperation Commission**  
P.O. Box 221648  
El Paso, TX 79913  
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